

Markel Group (MKL)

A 50% Probability of Underwriting Failure Still Yields a 30% Margin of Safety

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Executive Summary

Markel Group (MKL) presents a compelling opportunity to acquire a proven, compounding financial engine at a **30% discount** to its stress-tested intrinsic value — meaning the stock trades at approximately seventy cents on the dollar of conservatively estimated economic worth. For the current market price to be correct, an investor must believe not merely that social inflation is severe, but that Markel's non-insurance Operating Engine simultaneously stalls, the equity portfolio underperforms, management's aggressive de-risking actions fail entirely, and this confluence of failures persists for a decade. That is not a thesis. That is a catastrophe — and the math in this paper does not require betting against it.

The current market environment demands extreme skepticism regarding casualty insurance reserves. Social inflation, driven by private equity-funded litigation, is a genuine, quantifiable threat to historical underwriting margins — not a hypothetical one.

To rigorously stress-test this valuation, this paper abandons optimistic underwriting assumptions and instead models a 50% probability of a permanent underwriting deterioration — a scenario in which secular social inflation permanently impairs legacy casualty reserves by 5% and forces the combined ratio to a permanent floor of 99%, entirely destroying the float multiplier's leverage. Yet because Markel's non-insurance Operating Engine and Equity Portfolio are structurally independent compounding engines funded by separate capital streams, the probability-weighted intrinsic value remains \$2,773 per share. At a current price of \$1,942.78, the market is offering a 30% margin of safety against a valuation that already prices in a 50% probability of catastrophic underwriting failure: $(\$2,773 - \$1,942.78) / \$2,773 = 30\%$.

The Investment Case at a Glance

- **Deep Valuation Gap:** Three independent valuation methods — True Economic Book Value (~\$1,942), Static Intrinsic Value (~\$2,445), and probability-weighted NPV (\$2,773) — converge on the same conclusion. The market offers meaningful downside protection even assuming zero future growth.
- **The Sum of the Parts Safety Net:** Unlike pure-play insurers, Markel's private Operating Engine and Equity Portfolio provide standalone compounding cash flows that protect the enterprise value even if the underwriting engine stalls.
- **The Float Multiplier:** Markel operates with a 1:1 float-to-equity ratio — providing four times the mathematical leverage of Berkshire — amplifying the force of investment returns on a per-share basis.

- **Hidden Assets:** GAAP accounting rules systematically understate the value of Markel's "Operating Engine" (formerly Ventures), hiding **\$5.33 billion (\$423/share)** in economic value that is invisible on the balance sheet.
- **Share Repurchase Engine:** Management is aggressively retiring shares at prices well below economic value, a self-reinforcing mechanism that permanently increases per-share intrinsic value.

Markel Valuation

Three independent valuation methods — each built on independent assumptions and data — converge on the same conclusion: Markel is materially undervalued at its currently quoted price.

Table 1 - Markel Valuation

Valuation Method	Per Share Value	vs. \$1,942 Price
True Economic Book Value	~\$1,942	At 1.00x parity
Static Intrinsic Value	~\$2,445	21% discount
NPV Intrinsic Value	~\$2,773	30% discount

The three methods tell a coherent, layered story. True economic book value — the most conservative measure, correcting only for GAAP distortions with no future growth assumed — places the stock at parity, meaning the market is currently offering the entire compounding engine at no incremental cost. The static intrinsic value, assuming current earning power but zero future growth, implies a 21% discount. Only when the full present value of a decade of compounding is incorporated does the complete opportunity reveal itself: a 30% discount to probability-weighted intrinsic value.

To understand why these gaps exist — and why the market persistently misprices this architecture — we must first understand how Markel's three-engine compounding system actually works.

The Power of Float

Markel is a financial holding company built from the ground up in much the same manner that Berkshire Hathaway developed. Berkshire began as a failing textile business — by Buffett's own admission, a capital allocation mistake he has called one of his *worst* investment decisions — suffering from declining operations, heavy capital expenditure requirements, and poor returns on invested capital. To his credit, Buffett used the cash flows from the dying textile mills

to acquire many other businesses with far better prospects. Among these was an insurance operation: National Indemnity.

That acquisition provided the **float** — the pool of premiums held before claims are paid — that became the foundation of Berkshire. Float is technically a liability, but it carries no contractual repayment schedule and, when underwriting is profitable, has **no cost of capital**. When an insurer is paid to hold other people's money, the math of compounding changes forever.

Markel has institutionalized this exact playbook. Since its 1986 IPO, Markel's insurance arm has focused on Excess and Surplus (E&S) and specialty lines, avoiding the "race to the bottom" of commoditized auto or home insurance. By insuring unique risks — from summer camps to equine operations — Markel exerts pricing power in niches that standard carriers refuse to touch. This discipline has allowed them to maintain a combined ratio in the mid-90s for decades; they aren't just holding other people's money, they are being paid to hold it.

Valuing a Financial Holding Company: The Three Engines

This costless float serves as the capital that funds a diverse array of cash-generating assets, allowing Markel to construct a three engine system where each component reinforces the others:

- **Underwriting:** Generating high-quality, costless float.
- **Investments:** A portfolio of equities and fixed income fueled by that float, providing recurring dividend and interest income.
- **Operating Businesses:** A diverse stable of private companies (Industrial, Financial, and Consumer) that provide durable, non-insurance cash flows

How does one value a business with an insurance company at its core, a portfolio of minority equity holdings, and a collection of privately held businesses for which no quoted market price exists? Looking only at reported GAAP earnings would be misleading. Since 2018, GAAP has required companies to include unrealized gains and losses from equity portfolios in net income, creating enormous year-to-year volatility. Markel's GAAP net income has swung from +\$2.7 billion (2023) to -\$252 million (2022) — a \$3 billion swing driven almost entirely by stock market fluctuations, not operating performance.

To understand the actual cash-generating power, both Warren Buffett and Markel CEO Tom Gayner use custom non-GAAP metrics that strip out this noise — Berkshire calls it "Operating Earnings," Markel calls it "Adjusted Operating Income" (AOI) — but they are economically identical, capturing recurring investment income, underwriting profits, and operating business earnings while excluding unpredictable capital gains. We use Markel's metric throughout, following Buffett's recommended two-step approach to calculate intrinsic value:

- **Step 1: Calculate Total Operating Earnings and Apply a Multiple.** We tally recurring, normalized cash flows from the operating businesses, underwriting profits,

and investment income. As of 2025, Markel reports its private operating businesses across three segments: **Industrial**, **Financial**, and **Consumer & Other**.

- **Step 2: Add the Non-Operating Balance Sheet Value.** We account for the capital appreciation of the investment portfolio by adding its marked-to-market value. This includes all publicly traded equity holdings, cash, and short-term liquid instruments, minus all outstanding debt and non-controlling interests (NCI). A 20% "haircut" is applied to the equity portfolio to reflect the deferred capital gains tax liability.

A Static Valuation: The Reproduction Floor

Applying this framework statically to Markel produces a “reproduction floor” — the value an acquirer would pay simply to replicate Markel's current earning power and balance sheet assets, assigning *zero* value to future growth.

The contrast with Berkshire is instructive. Applying the identical framework to Berkshire — \$32 billion in operating earnings at a 12x multiple, plus \$535.6 billion in net balance sheet value — produces a static intrinsic value of \$920 billion against a current market cap of approximately \$1,057 billion. Berkshire trades at a modest **15% premium** to its static reproduction cost; a wonderful business priced accordingly.

Markel tells a different story. We use trailing three-year average of adjusted earnings as the earnings base — consistent with Gayner's own methodology for smoothing year-to-year volatility:

Table 2 - Markel Static Intrinsic Value

Component	Calculation	Value
Operating Earnings	\$1.6B (3-yr. average AOI) × 12x multiple	\$19.2 billion
Net Balance Sheet	Cash + Equities (taxed) – (Debt & NCI)	\$11.6 billion
Static Intrinsic Value		\$30.8 billion

Against a recent market capitalization of approximately **\$24.5 billion**, Markel trades at an implied **21% discount** to its static reproduction cost.

The Float Multiplier: Markel's Structural Leverage

The second step in understanding Markel's architecture is the ratio of float held relative to its own equity base. This ratio determines the mathematical *leverage* of the compounding engine.

As of year-end 2025, Berkshire Hathaway held \$176 billion in float against an operational equity base of approximately \$720 billion — a float-to-equity ratio of approximately **.24:1**. While this represents a fortress-level balance sheet, the massive equity base dilutes the bottom-line impact of the float's investment returns.

Markel, by contrast, operates with approximately \$18.8 billion in insurance float¹ against an equity base of \$18.6 billion — a float-to-equity ratio of essentially **1:1**.

This four-fold increase in leverage over Berkshire has meaningful mathematical consequences. Markel's investment returns land with concentrated, amplified force on a much smaller equity base, driving per-share intrinsic value growth at a much higher rate. This "float multiplier," combined with a smaller capital base that remains nimble enough to deploy into mid-sized opportunities, allows Markel to out-compound Berkshire on a per-share basis for the foreseeable future.

The Float: A Growing, Costless Foundation

The float multiplier is only as valuable as the float is durable. Markel's float has grown from approximately \$8.1 billion at year-end 2015 to \$18.8 billion at year-end 2025 — a compound annual growth rate of 8.8% over the decade. Critically, this growth has not come at the cost of underwriting discipline; it reflects the organic expansion of a specialty franchise writing more premium in niches where Markel has genuine pricing power.

More important than the level is the cost. Float costs nothing — or less than nothing — when the combined ratio is below 100%. Over the past decade, Markel's combined ratio has averaged approximately 96%. This is not a recent phenomenon; it is a four-decade pattern of underwriting discipline in specialty and E&S lines that standard carriers will not touch.

Table 3 - Markel Float & Combined-Ratio (2015 - 2025)

Year	Float (\$B)	Combined Ratio
2015	\$8.1B	89%
2016	\$9.0B	92%
2017	\$10.2B	105%*
2018	\$11.3B	98%
2019	\$12.4B	95%
2020	\$13.6B	98%
2021	\$14.9B	92%
2022	\$16.2B	91%
2023	\$17.1B	101%**
2024	\$18.1B	96%
2025	\$18.8B	94.6%

*2017: Hurricane Harvey, Irma, Maria — catastrophic industry-wide loss year.

**2023: \$330M adverse casualty reserve charge, addressed proactively and corrected by 2025.

Two observations from this **Table 3** are worth emphasizing. First, even in the two years where the combined ratio exceeded 100% — both driven by identifiable, non-recurring events — the breach was modest and temporary. Second, excluding those two years, the combined ratio has never exceeded 98% in a decade, confirming that Markel's specialty moat is not a marketing claim but a demonstrated, repeatable outcome. The float is not merely free — it is structurally free, by design.

Why Markel's Growth Rate Exceeds Berkshire's: The Size Advantage

The primary challenge facing Berkshire Hathaway today is simple arithmetic. With a market capitalization exceeding \$1 trillion, Berkshire requires tens of billions in annual deployment just to move the needle on its existing returns. As a result, its investable universe has shrunk dramatically to only the largest global opportunities.

Markel faces no such constraint. With a \$24.5 billion market capitalization, a \$500 million acquisition is a transformative, needle-moving event. To achieve the same relative impact, Berkshire would need to deploy \$20 billion.

This size advantage creates a competitive filter. By offering a permanent, culturally-aligned home for founders, Markel bypasses private equity bidding wars to acquire high-quality businesses that are far too small to interest Berkshire's management. Together, this nimbleness and the "float multiplier" support projecting a long-term base-case growth rate of 10% — materially exceeding Berkshire's more likely 5% – 8% range.

The Underwriting Engine: Discipline and Niche Stickiness

To justify the growth rates in our net present value (NPV) model, the quality of the insurance float must be durable. Markel's specialty focus creates a "sticky" relationship with the insured; in many of these niches, the alternative to Markel is often no coverage at all. This gives the company genuine pricing power, as the buyer prioritizes the underwriter's balance sheet and specialized claims handling over marginal premium differences. This niche dominance provides a defensive moat that allows Markel to navigate industry-wide headwinds that might cripple a standard carrier.

Operational Rigor and the Cost of De-Risking

Markel's discipline is evidenced by a combined ratio that has averaged in the mid-90s for nearly four decades. However, this discipline is currently being tested by the secular industry-wide pressure of private equity-funded social inflation. Third-party actuarial reviews (such as industry analyses by Morgan Stanley and Jefferies) note that Markel's initial loss picks in certain claims-made lines rose to historically high levels, while favorable reserve releases compressed from historical norms of 4.6%–6.4% down to near-zero levels.

Rather than hoping this trend is cyclical, management has responded with necessary, aggressive amputations to protect the balance sheet:

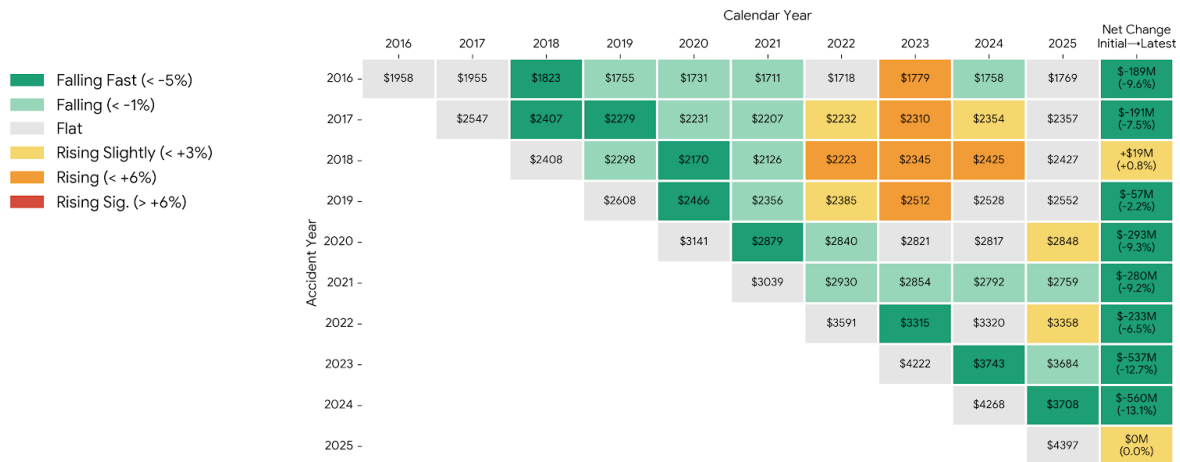
- **The 2023 Correction:** Markel proactively took a \$330 million adverse casualty reserve charge and aggressively pushed rate hikes.
- **The 2025 Amputations:** Recognizing that social inflation fundamentally alters the risk-reward in certain layers, Markel executed massive de-risking maneuvers, most notably selling the renewal rights to the ~\$1 billion Global Reinsurance division, placing the legacy book into run-off, and discontinuing the volatile IP CPI product line.

This de-risking proves management is awake, but it comes at a cost to future growth. Ceding more premium to reinsurers and compressing primary limits reduces the absolute volume of float generated. Furthermore, Markel operates with a mid-30s expense ratio, which trails hyper-efficient, pure-play peers like Kinsale Capital (low 20s). This structural friction requires Markel to maintain strict pricing discipline to generate its underwriting margin, a reality we acknowledge by probability weighting a more muted base growth scenario into the valuation.

The data does *not* suggest catastrophic reserve failure. It suggests a business that:

- Took a necessary but adequately-sized correction in 2023
- Is recovering toward historical norms but not yet there
- Has new signals emerging in later vintages that bear watching
- Is taking structural actions (run-off, exits, tighter limits) that reduce future exposure

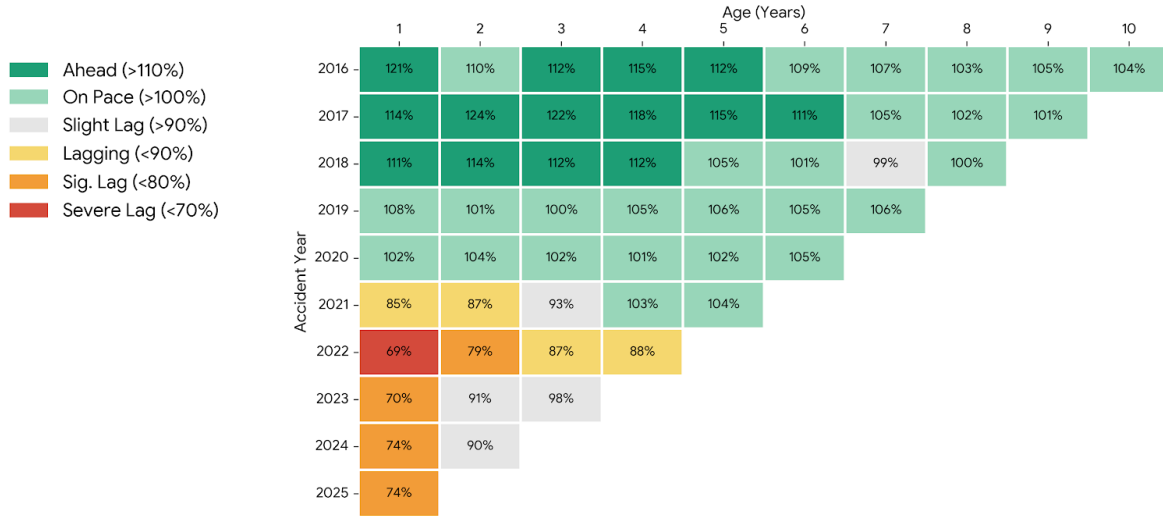
Figure 1 - Markel Reserve Stack by Accident Year (2016 - 2025)²



Source: Markel 2025 10-K, Note 11d (Markel Insurance Segment) | timothydoyle.com

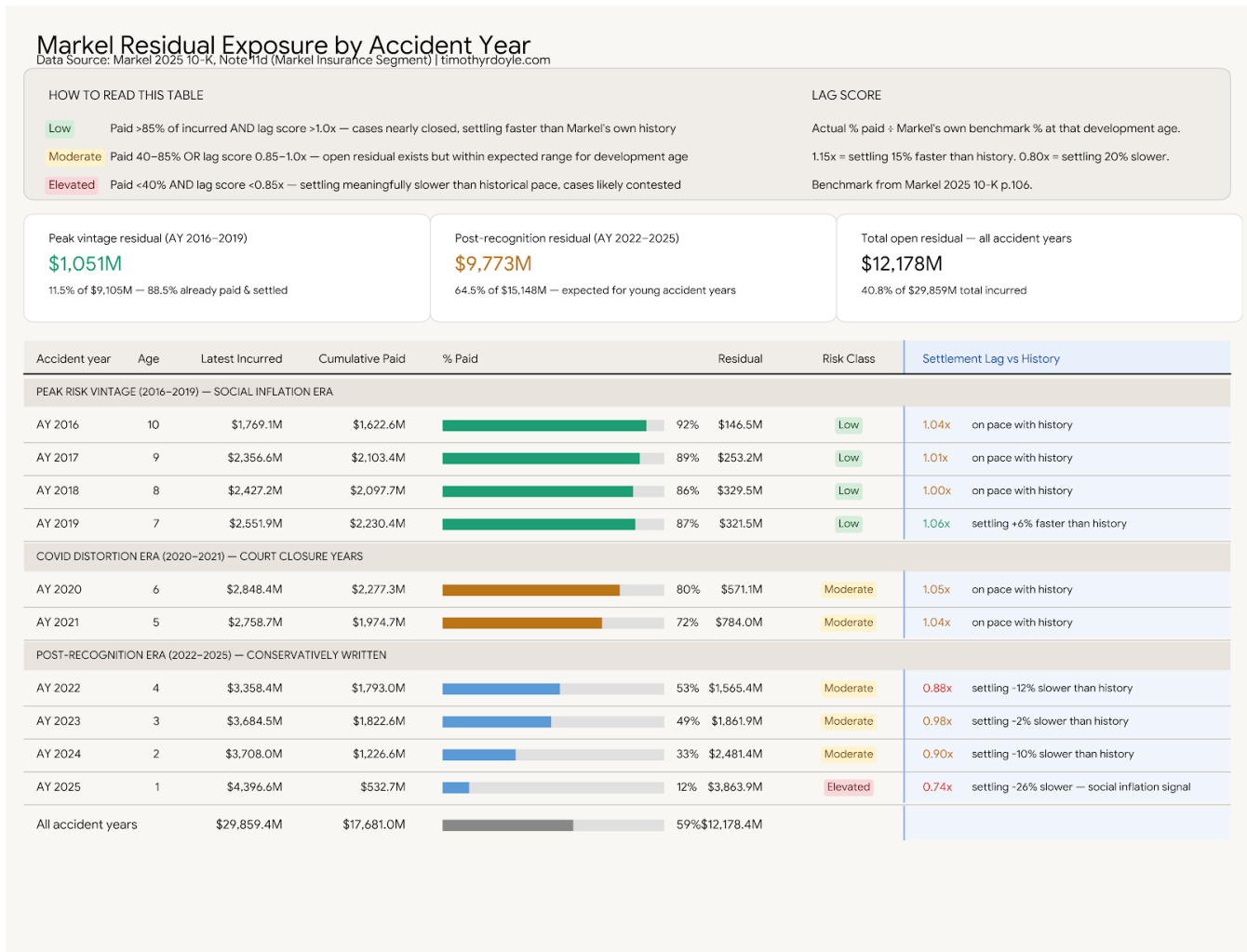
The settlement pace benchmark used in **Figure 2** is not an industry estimate — it is Markel's own average annual payout percentage published in Note 11d of the 2025 10-K. Each accident year is compared against the company's own historical norm, making the company its own control group.

Figure 2 - Markel Settlement Lag (2016 - 2025)³



Source: Markel 2025 10-K, Note 11d (Markel Insurance Segment) | timothydoyle.com

Figure 3 - Markel Residual Exposure Risk by Accident Year (2016 - 2025)⁴



The data gleaned from the Markel 2025 10-K, calibrated against Markel's own actuarial benchmarks, concentrates \$5.2B of the \$10.8B stated IBNR in vintages with elevated social inflation exposure — while noting that the reserve release rate, recovering to 3.1% in 2024–2025, remains below the 4.6%–6.4% historical norm, confirming that social inflation is contained but not resolved.

The 2016–2019 vintages did not produce catastrophic reserve development — Markel's conservative initial reserving culture absorbed most of the social inflation impact. What they produced instead was a systematic suppression of the favorable development that should have emerged as those years matured — a hidden cost of approximately \$2.8 billion (range: \$2.4B–\$3.3B depending on the assumed historical release rate) in foregone reserve releases that the business expected to earn but did not receive. This represents the difference between what Markel's 2016–2019 incurred estimates actually are today and where they would be had they followed the company's own pre-social-inflation development trajectory of 4.6%–6.4% annual favorable releases.

The \$2.8 billion in foregone reserve releases carries a second, less visible cost: the time value of capital denied its highest use. While trapped in reserves, this capital functionally required Markel to maintain a larger fixed income portfolio than its historical liability structure would have demanded — earning approximately 2.8% in blended fixed income yield rather than the 12% return Markel's equity engine delivered over the 2016 - 2025 period. The mechanism is indirect: Markel does not reserve specific dollars against specific liabilities, but the duration-matching discipline that governs the investment portfolio means that \$2.8 billion in unexpected reserve retention effectively crowded out equity deployment at the margin. The cumulative compounding differential — capital constrained to bond rates in a business structurally designed to compound at equity rates — amounts to approximately \$1.2 billion in foregone value creation, or \$98 per share, over the 2016–2025 development period. This does not appear on any financial statement. It is the invisible arithmetic of social inflation: capital earning bond rates in a business built to compound at equity rates, for nearly a decade. Importantly, it is also partially recoverable. As the **Figure 2** settlement data shows, the 2016–2019 vintages are now resolving faster than Markel's own historical pace — which means this capital is progressively migrating from the liability column back into the equity engine where it was always destined to compound.

Evidence suggesting social inflation is contained (pushing probability *below* 50%):

- Release rate recovered from 0.3% to 3.1% in two years — rapid improvement
- Management took aggressive structural action: exits, run-off, rate hikes
- 2025 showed \$488M favorable development — largest since before the crisis
- Peak vintages (2016–2019) now show settlement lags above 1.0 — cases actually resolving
- Management guidance: "reasonably likely" favorable development of up to \$800M in 2026

Evidence suggesting social inflation is *not* fully contained (pushing probability *above* 50%):

- Release rate still 240 basis points below historical norm after two years of recovery
- New adverse development on AY 2022–2023 professional liability in 2025
- Global Re settlement lags at 0.60–0.62 — severe, and run-off books tend to worsen
- CAS/Triple-I: industry OLO social inflation added 27–34% to booked losses 2015–2024 — the structural cause hasn't gone away
- The litigation finance industry is larger, not smaller, than when the 2016–2019 problems originated

The central reserve uncertainty is not whether social inflation affected Markel's casualty book — it did, and management acknowledged it with a \$330 million charge in 2023 followed by material structural de-risking in 2025. The question is whether those actions were sufficient to contain the problem, or whether the structural dynamics of litigation finance will continue to impair reserve adequacy in subsequent vintages.

The evidence is mixed. In favor of containment: the reserve release rate recovered from near-zero in 2023 to 3.1% in both 2024 and 2025, management generated \$488 million in net favorable development in 2025, and the peak-risk 2016–2019 accident years now show settlement patterns consistent with resolution. Against full containment: the release rate remains below the 4.6%–6.4% historical norm, new adverse development emerged on post-recognition accident years 2022 and 2023 in U.S. professional liability lines during 2025, and the run-off Global Reinsurance book shows settlement lags consistent with contested, unresolved claims.

Because the observable evidence does not resolve the question in either direction, we assign a 50% probability to the scenario in which social inflation permanently floors the combined ratio at 99% and impairs legacy reserves by 5%. The 50% probability of underwriting impairment is as much about social inflation persistence (unknown at this point) as it is about management being able to effectively respond to social inflation should it persist, as they appear to have done according to the settlement lag data improvement since 2023 for 2016–2019 accident years.

The Operating Engine

Historically, investors viewed Markel's non-insurance businesses through the narrow lens of the "Markel Ventures" segment. While grounded in the disclosures available at the time, this focus significantly understated the company's true non-insurance earnings power. In 2025, management executed a fundamental shift in reporting, extracting high-margin, capital-light, fee-based businesses — specifically **State National** and **Nephila** — from the risk-bearing insurance segments and grouping them into a transparent "**Operating Engine**".

By revealing that nearly 40% of this engine is derived from predictable, fee-based services rather than cyclical industrial operations, management has effectively provided the market with a

roadmap for multiple expansion. These are no longer viewed as mere "ventures," but as a diversified, cash-generating flywheel consisting of three distinct segments:

- **Industrial** (\$343M AOI): Infrastructure and construction-related services including Buckner HeavyLift Cranes and Metromont.
- **Financial** (\$327M AOI): High-margin program services, specialty insurance distribution, and insurance-adjacent fee businesses.
- **Consumer & Other** (\$174M AOI): A portfolio of durable consumer brands and building products including Costa Farms and Lansing Building Products.

At current prices, investors are not just buying a collection of unglamorous industrial businesses; they are acquiring a high-margin, diversified service engine that the market continues to incorrectly value using a discounted insurance multiple.

The GAAP Value Distortion: Invisible Economic Worth

A critical distortion in Markel's reported financials misleads investors who rely on GAAP book value as a valuation anchor. Under GAAP, acquired businesses are recorded at their historical purchase price and subsequently reduced by annual amortization. The economic reality — that businesses are worth materially more today than their original cost — is invisible on the balance sheet.

To quantify this mispricing, we compare the economic value of this **\$844.4 million** income stream generated by these segments against their reported carrying value:

- **Implied Private-Market Value:** By applying a conservative 10x multiple—a significant *discount* to public-market peers — we arrive at an implied value of **\$8.44 billion**.
- **GAAP Carrying Value:** As of year-end 2025, the total carrying value (Goodwill and Intangible assets) for these segments is just **\$3.11 billion**.
- **The "Value Delta":** This creates a **\$5.33 billion** gap — representing **\$423 per share** of economic value that has been created through organic growth but remains invisible on the GAAP balance sheet.

A note on methodology: the 10x multiple is applied to **operating income** — not EBITDA⁵ earnings. This distinction matters. For capital-intensive subsidiaries like Buckner HeavyLift Cranes and Metromont Precast Concrete, equipment wears out and must be replaced. Pretending otherwise inflates the multiple and overstates the value. By using operating income — substantially equivalent to EBIT — we absorb depreciation as the genuine economic expense it is. The 10x EBIT multiple is grounded in observable private-market transaction data. Comparable industrial and specialty services businesses — the asset class that most closely mirrors Markel's Industrial and Consumer segments — have transacted in the 8x–12x EBIT range in recent private equity and strategic acquisitions, with capital-light fee businesses (the closest analog to State National and Nephila's program services revenue) commanding the

upper end of that range. We apply the midpoint conservatively, without credit for any control premium an acquirer would typically pay. The implied 10x EBIT multiple is also a material discount to the 14x–18x EBITDA multiples at which public specialty insurance holding companies currently trade. The 30% margin of safety identified in this paper exists even after applying this more rigorous standard.

The Permanent Capital Proposition

What makes the Operating Engine a compounding machine rather than a mere collection of assets is the *Markel Style* of acquisition. When a founder wants to exit a successful business, the typical alternative is a private equity firm that loads the business with debt and optimizes for a short-term flip.

Markel offers a fundamentally different proposition: they buy to keep forever. They do not change the company's name, burden it with debt, or replace the culture. This makes Markel a more favored buyer for founders who prioritize their legacy, allowing Gayner to win high-quality acquisitions without being forced into competitive bidding wars.

The Share Repurchase Distortion

A second, less-discussed distortion compounds the GAAP carrying value problem. When Markel repurchases shares above GAAP book value — as it has done consistently since 2022 — the accounting treatment mechanically reduces total shareholders' equity by the full market price paid.

While this shrinks the share count and raises book value *per share* modestly, it permanently suppresses the *total equity* reported on the balance sheet. The consequence is that the GAAP book value anchor used by the investment community is artificially low compared to what it would show if Markel had simply held the cash. This distorts book value *lower*, making the company look more *expensive* exactly at the time that management is making its most rational capital allocation moves.

Quantifying the Premium

From 2022 through 2025, Markel deployed over **\$1.7 billion** in share repurchases at prices averaging between \$1,248 and \$1,926. Because these shares were retired at a significant premium to their accounting book value, a cumulative *missing* equity of approximately \$601 million⁶ — or \$48 per share⁷ — has been wiped from the reported financials.

Reconstructing True Economic Book Value

To find Markel's true "reproduction cost," we must correct for these accounting illusions. By substituting our conservative 10x private-market valuation for the GAAP carrying value of the non-insurance segments, we arrive at a much more accurate estimate of the company's true worth.

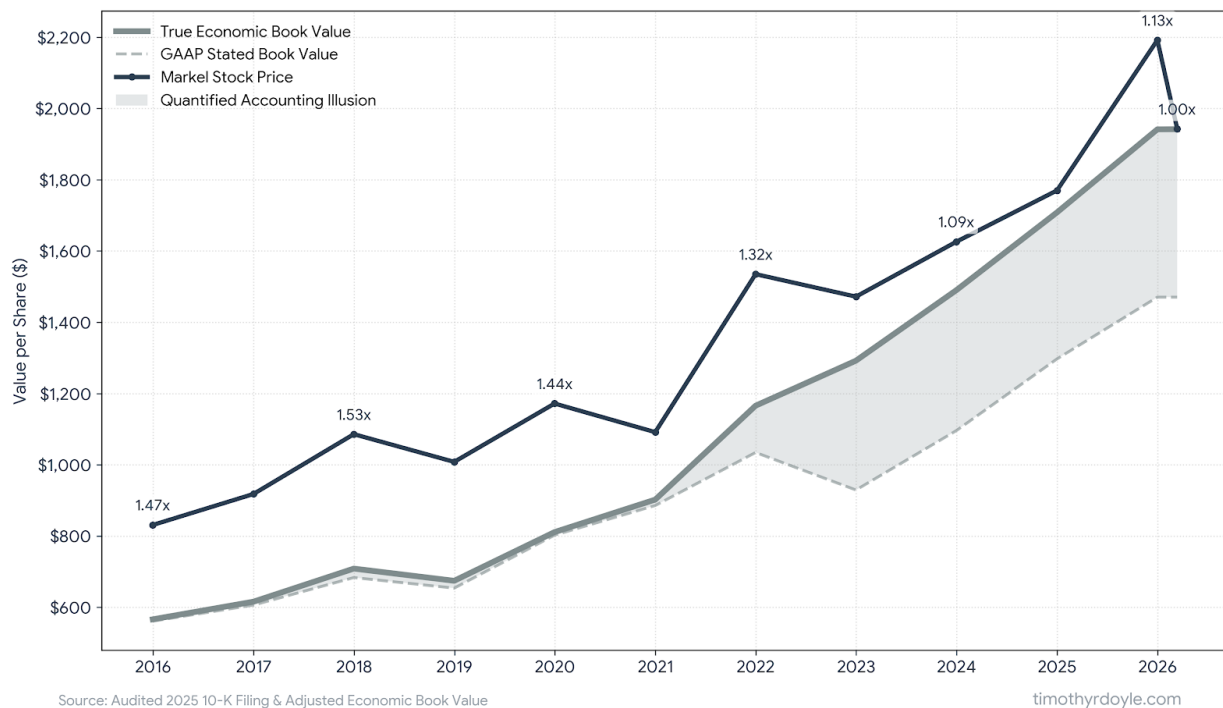
- **GAAP Book Value (Year-End 2025): \$1,470.**

- **Non-Insurance Value Delta: +\$423.**
- **Economic Book Value: \$1,893.**

For relative valuation purposes, if we further adjust for the **\$48** per share repurchase distortion, the **True Economic Book Value** reaches approximately **\$1,942** per share.

Against a recent closing price of **\$1,942.78**, Markel is trading at a true price-to-economic-book ratio of **1.00x**. At this level, an investor is paying fair value for the static assets in place today, while the market throws in the entire specialty insurance franchise, the investment portfolio's future alpha, and the next decade of organic growth completely for free.

Figure 4: Markel Share Price Multiple to True Economic Book Value^{8,9}



The Power of Future Cash Flows: A NPV Analysis

Static valuation captures only the present earning power of the business. **What matters most to a long-term investor is the present value of all future cash flows the business will generate between now and judgment day.** To estimate this rigorously without anchoring to a single growth assumption, we use a probability-weighted matrix of growth scenarios. Crucially, while our static valuation provides a “reproduction floor”, this dynamic analysis captures the compounding power of the three engines over the next decade.

(Note: We assume a 10% discount rate to calculate Present Value and a 10x multiple on Year 10 earnings to calculate the terminal value).

As a point of context, applying this identical framework to Berkshire across three equally weighted scenarios—5%, 8%, and 10% growth—produces a probability-weighted intrinsic value of **\$1,089 billion**¹⁰ against a current market cap of **\$1,057 billion**. Berkshire is priced at fair value: a wonderful business at a fair price, with minimal margin of safety. Markel's picture is fundamentally different.

Markel Group: A Probability-Weighted NPV Analysis

To rigorously value the future cash flows without anchoring to a single optimistic growth assumption, we use a probability-weighted matrix of growth scenarios.

We deliberately subject this matrix to a 50% probability of an underwriting impairment scenario. In this stress test, we assume:

- A 5% structural deficiency in the \$30.85B gross unpaid losses (a \$1.21 billion after-tax hit to the starting balance sheet).
- The insurance combined ratio is permanently floored at 99%. Underwriting margin vanishes, and the float stagnates.

The baseline earnings power in this scenario drops to \$1.17 billion, derived as follows. Rather than anchoring to peak 2025 results, we apply Gayner's own 3-year smoothing discipline to both non-insurance engines independently.

The Operating Engine 3-year average (2023–2025: \$774.9M, \$772.5M, \$844.4M) resolves to **\$797.3 million**¹¹ — absorbing prior industrial cyclicity and margin compression before peak margins appeared. The Investment Engine 3-year average (2023–2025: \$734.0M, \$920.0M, \$970.0M) resolves to **\$874.7 million**¹² — absorbing the lower rate environment of 2023 before the full benefit of higher reinvestment yields compounded through the portfolio. Combined, the smoothed non-insurance baseline is **\$1,672 million**.

It is worth noting that Gayner's public equity portfolio has modestly trailed the S&P 500 by approximately 100 basis points annually over the past five years — a fact sometimes cited as a concern, but one that misreads the portfolio's structural purpose. The equity holdings are not designed to beat a passive index; they are designed to compound at acceptable returns with lower volatility than the index, preserving the capital base that powers the float multiplier. The fixed income portfolio — funded directly by the \$18.8 billion float and generating the majority of the Investment Engine's recurring income — carries no such benchmark concern, since its purpose is duration-matched liability coverage, not alpha generation. The 100 bps equity lag is real, acknowledged, and already embedded in the 3-year average used here; it does not alter the structural earnings floor that anchors this scenario.

This figure, however, is segment EBIT — the cash generated *before* the holding company pays its bills. To arrive at the true net cash flow available for capital allocation, three deductions must be applied:

- **Corporate interest expense:** Markel carries approximately \$3.5 billion in senior long-term debt at a blended rate of 4.5%, producing annual interest obligations of approximately \$160 million.
- **Corporate overhead:** Holding company expenses — executive compensation, board fees, audit, legal, and Richmond headquarters costs unallocated to any operating segment — consume approximately \$30 million annually.
- **Federal and state corporate taxes:** Applied at the 21% statutory rate to pre-tax earnings of approximately \$1,482 million, producing a tax obligation of \$311 million.

The arithmetic: $\$1,672\text{M} - \$160\text{M} - \$30\text{M} = \$1,482\text{M}$ pre-tax; $\$1,482\text{M} \times (1 - 0.21) = \mathbf{\$1,170\text{M}}$. The holding company retains 70% of raw segment earnings — making the 30% structural haircut not a penalty, but a straightforward application of corporate finance to segment-level data. A reader who disputes the 30% figure is implicitly arguing that Markel pays no taxes, carries no debt, and operates its Richmond headquarters for free.

Using a 10% discount rate and a 10x multiple, the matrix resolves as follows:

1. Historical Run-Rate (12% Growth - 10% Probability)

- Earnings Base: \$1.60 Billion
- Balance Sheet: \$11.59 Billion
- **Calculation:** The \$1.60B compounds at 12% annually for 10 years, discounted at 10%, plus the terminal value and the static balance sheet (social inflation ceases to be a problem).
- **Historical Run-Rate Intrinsic Value: \$3,844 per share**

2. Muted Compounding (10% Growth - 30% Probability)

- Earnings Base: \$1.60 Billion
- Balance Sheet: \$11.59 Billion
- **Calculation:** The \$1.60B compounds at 10% annually for 10 years, discounted at 10%, plus the terminal value and the static balance sheet (this is the base case for Markel: higher reserve requirements and longer timeframes for release of reserves persists, creating a higher opportunity cost for capital that is tied up longer at lower yields).
- **Muted Compounding Intrinsic Value: \$3,460 per share**

3. Persistent Headwinds (6% Growth - 10% Probability)

- Earnings Base: \$1.60 Billion
- Balance Sheet: \$11.59 Billion

- **Calculation:** The \$1.60B compounds at 6% annually for 10 years, discounted at 10%, plus the terminal value and the static balance sheet. (social inflation headwinds persist and reserve requirements require even greater amounts of capital to be tied up at lower bond yields).
- **Persistent Headwinds Intrinsic Value: \$2,839 per share**

4. Maximum Stress Test (5% Growth - 50% Probability)

- **Impaired Earnings Base: \$1.17 Billion** (The 3-year smoothed average of non-insurance cash flows, minus the 30% structural corporate haircut).
- **Impaired Balance Sheet: \$10.38 Billion** (The standard balance sheet minus the 5% catastrophic reserve deficiency hit).
- **Calculation:** The \$1.17B compounds at 5% annually for 10 years, discounted at 10%, plus the terminal value and the impaired balance sheet (Underwriting engine completely impaired as social inflation escalates in the years ahead to a worst case scenario).
- **Maximum Stress Test Intrinsic Value: \$2,134 per share**

Because this underwriting impairment scenario actively destroys current underwriting margins and deducts a 5% deficiency from legacy reserves, its expected value temporarily dips below Markel's static reproduction cost, representing an active destruction of present value rather than just a lack of future growth.

The non-impairment scenarios retain the full \$1.6 billion earnings base and standard balance sheet not because they ignore the underwriting risk — but because the Operating Engine and equity portfolio are structurally independent of it. These are not subsidiaries of the insurance operation. They are co-equal engines within the holding company, funded by separate capital streams, generating cash flows from cranes, precast concrete, program services, and Costa Farms regardless of what happens to a casualty combined ratio. The insurance engine stalling does not turn off the Operating Engine. This structural separation is the entire point of Markel's three-engine architecture.

The 50% probability assigned to the impairment scenario is therefore not a coin flip on whether social inflation is real — it demonstrably is. It is a precisely calibrated bet on a single, answerable question: whether Markel's management response — rate hikes, limit compression, reinsurance cessions, and the outright sale of the Global Reinsurance renewal rights — is sufficient to contain damage that has already been acknowledged and partially addressed. The 30% corporate haircut in the impairment scenario already penalizes the remaining engines for the loss of holding company synergies. We assign 50% probability that management's response proves insufficient, stress-test the balance sheet with a 5% reserve deficiency, permanently floor the combined ratio at 99%, and the investment case *still* survives. A reader who disputes the

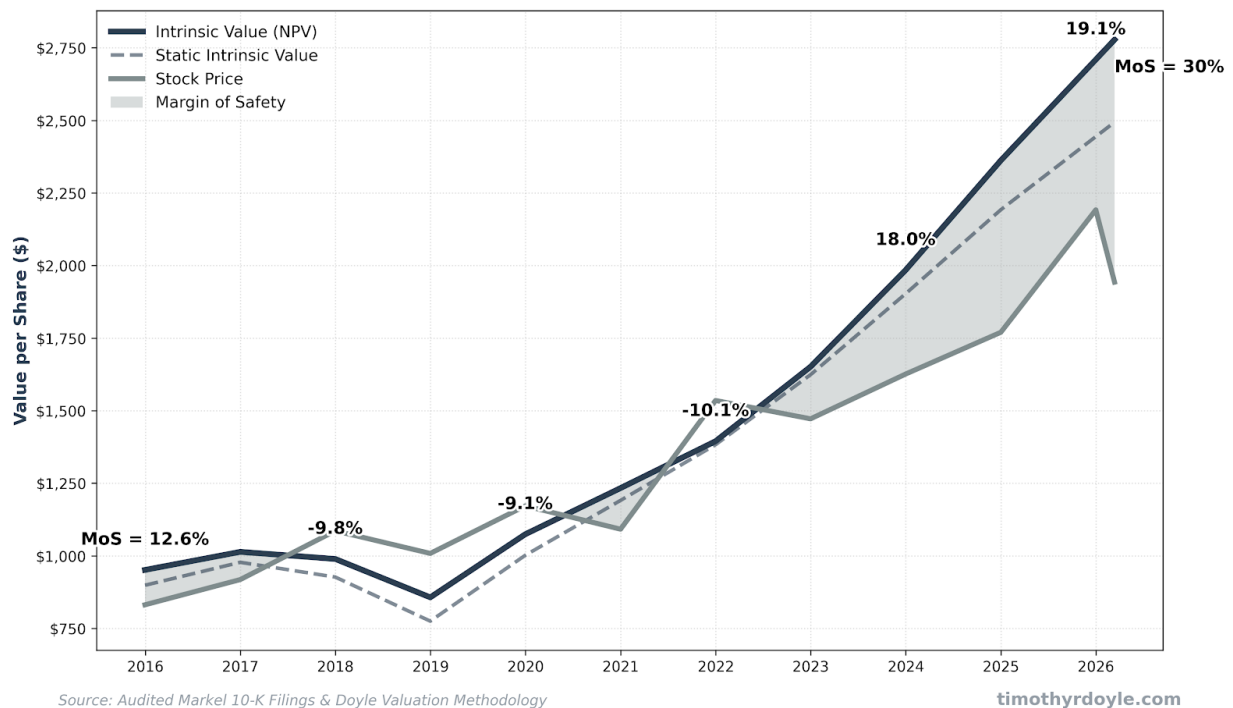
structural independence of the engines is implicitly arguing that Costa Farms stops growing because a casualty reserve deteriorates. The arithmetic does not support that argument.

The Expected Value: By calculating the bottom of the abyss (\$2,134) and assigning it a heavy 50% probability, we mathematically contain the primary bear argument:

$$EV = (0.10 \times \$3,844) + (0.30 \times \$3,460) + (0.10 \times \$2,839) + (0.50 \times \$2,134) = \mathbf{\$2,773.30}$$

Even after absorbing a 50% probability that secular social inflation destroys the underwriting margin and impair legacy reserves, the independent compounding of Markel's non-insurance Operating Engine and Equity Portfolio still drives intrinsic value to \$2,773 per share.

Figure 5: Markel Intrinsic Value per Share and Margin of Safety to Share Price¹³



True economic book value and NPV intrinsic value (IV) measure different things — the former captures the current economic worth of assets in place; the latter captures the present value of all future cash flows including a decade of compounding at 8–12% growth rates.

While the stock trades as of early March 2026 at a 30% discount to its probability-weighted expected value, its relationship to highly conservative economic book value is equally telling. At ~\$1,942 per share, the stock trades at parity (1.00x) with its true economic book value. This means an investor is paying fair value for the assets in place today, while the market is offering

the entire specialty insurance franchise, the investment portfolio's structural alpha, and a decade of future compounding completely for free (**Figure 4**).

Understanding the 10% Discount Rate: How Do We Actually Make Money?

The discount rate used in a discounted cash flow (DCF) is not merely a mathematical convention — it is the investor's required annual return. If you purchase a stock exactly at its intrinsic value as calculated using a 10% discount rate, and the business performs exactly as modeled, your annualized return over the investment horizon will be exactly 10%.

Berkshire, trading near its \$1,089 billion intrinsic value, offers precisely that — a 10% compounding return on a fortress-level business with essentially zero existential risk. An excellent outcome. But there is no margin of safety. You are paying a fair price for a great business.

The Markel Reality: The Margin of Safety Engine

Markel is trading at approximately a 30% margin of safety to its probability-weighted intrinsic value — meaning for every \$1.00 of conservatively estimated economic worth, the market charges you \$0.70, consistent with Graham's original formulation of the concept as the percentage by which the purchase price is discounted from the underlying intrinsic value. $(\$2,773 - \$1,942) / \$2,773 = 30.0\%$:

- **Scenario A — Full Reversion:** If Markel compounds at the 10% muted compounding base case and the market prices the stock at 100% of intrinsic value by Year 10, the investor's realized annualized return is approximately **13.7%**¹⁴ — the 10% fundamental compounding plus the annualized boost from the valuation gap closing completely.
- **Scenario B — Partial Reversion:** If the market remains skeptical and the discount narrows from ~30% to ~15% over ten years, the investor captures an annualized return of approximately **11.2%**¹⁵.
- **Scenario C — No Reversion:** Even if the valuation gap never closes, the investor earns the 10% fundamental return on the underlying business — purchased with a substantial margin of safety.

This *asymmetry* is the core investment thesis. The margin of safety does not merely protect against being wrong. It amplifies the return for being right.

Share Repurchases: An Intrinsic Value Engine

The valuation gap is historically wide, and management is fully aware of it. Tom Gayner's capital allocation response has been unambiguous: as the discount to intrinsic value has deepened, share repurchases have accelerated. The logic is simple and mathematically precise — buying back shares at seventy cents on the dollar of economic value is one of the highest-return capital allocation decisions available to a management team operating a business that genuinely understands its own worth.

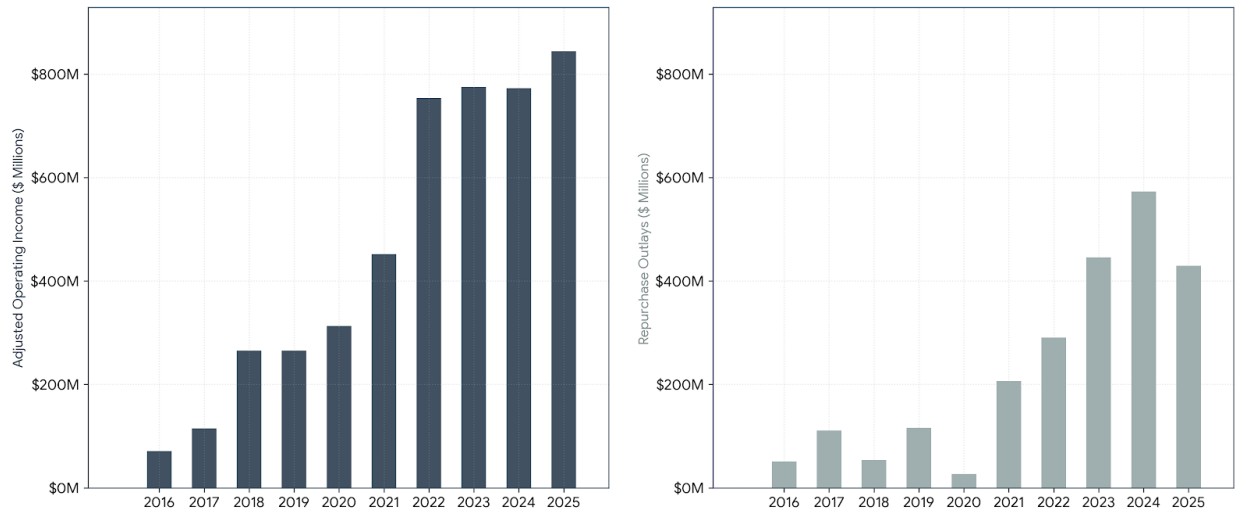
The repurchase trajectory over the past decade tells the story of a management team with conviction:

- **2015–2017:** Focus on heavy insurance acquisitions (e.g., the \$919M acquisition of State National); Share repurchases were essentially dormant as capital was prioritized for platform expansion.
- **2018–2019:** Repurchase program initiated with \$170M total deployed as the non-insurance engine's AOI crossed the \$100M milestone.
- **2020:** \$27M deployed in repurchases (Strategic pause during COVID-19 capital conservation).
- **2021:** \$206.5M deployed in repurchases; Operating Engine AOI jumps to \$452 million, driven by the transformative acquisition of Lansing Building Products.
- **2022:** \$290.8M deployed in repurchases; Operating Engine AOI reaches \$754 million, as the portfolio benefited from post-pandemic tailwinds and increased scale.
- **2023:** \$445.5M deployed in repurchases; Operating Engine AOI reaches \$775 million, demonstrating resilience despite inflationary pressures in the Industrial segment.
- **2024:** \$572.7M deployed in repurchases (Record deployment); Operating Engine AOI maintains strength at \$772.5 million, as growth in the Financial and Consumer segments offset cyclicity in Industrial.
- **2025:** \$429.5M deployed in repurchases; Operating Engine AOI hits a record \$844.4 million revealing the true scale of Markel's "Third Engine" after the formal re-segmentation of State National and Nephila.

The acceleration of repurchases beginning in 2022 marked a fundamental shift in capital allocation for Markel. By this time, the combined cash-flow generation of the mature insurance engine and the \$700M+ Ventures engine began to consistently exceed the company's internal reinvestment needs and acquisition pipeline. Markel has transitioned into a new phase. Share repurchases are no longer a periodic occurrence; they are now a co-equal priority with acquisitions, creating a permanent, self-reinforcing mechanism that gives Gayner the optionality to retire shares seventy cents on the dollar. In just the four years from 2022 to 2025, Markel deployed over \$1.73 billion of its operating cash flows toward share repurchases. The share count has declined from approximately 13.9 million in 2020 to 12.6 million at year-end 2025 — a reduction of 9% in five years. When a company with a proven compounding engine consistently retires shares at a discount to economic value, each repurchase permanently increases the intrinsic value per share of every remaining share. It is not a financial engineering trick — it is the rational application of capital to its highest-return use.

The repurchase program is not a separate capital allocation decision — it is the natural output of all three engines operating in concert, permanently concentrating their compounding power into fewer shares.

Figure 6: Markel “Operating Engine” Income and Share Repurchases 2016 - 2025¹⁶



Source: Audited 2025 10-K Filings & Doyle Valuation Methodology

timothydoyle.com

To understand why this architecture is so difficult to replicate — and why the valuation gap persists — it is worth examining how Markel's compounding flywheel compares to the peers most frequently cited as alternatives.

Peer Comparison: Why Markel's Architecture Is Distinctive

While names like Fairfax Financial (FFH) and Loews (L) are frequently cited as peers, a closer examination reveals that Markel’s architecture is distinctive in ways that matter for long-term compounding. With a 1:1 float-to-equity ratio and a 100% unleveraged Operating Engine, Markel generates a higher quality of earnings per dollar of equity than its larger or more traditional peers — and the peer comparisons below explain precisely why.

Berkshire Hathaway (BRK.A/BRK.B): The definitive structural comparable — identical three-engine architecture, identical culture of rational capital allocation, identical buy-and-hold-forever philosophy for private businesses. The critical difference is scale: Berkshire’s size is simultaneously its greatest achievement and its greatest compounding constraint. Gayner doesn’t need to replicate Buffett's genius — the structural advantages of float leverage and size nimbleness do much of the work, requiring only disciplined execution of a proven playbook.

Fairfax Financial (FFH): Prem Watsa is a capital allocator of genuine skill, but Fairfax has historically made large, concentrated macroeconomic bets — deflation hedges, equity hedges — that introduced significant volatility into book value and shareholder returns. When Watsa unwound these macro positions, Fairfax's stock re-rated sharply higher. Markel's approach is fundamentally different: slow, steady, bottom-up compounding without macroeconomic forecasting as a primary driver. This produces a more predictable earnings trajectory that lends itself better to the long-duration ownership that Gayner's "buy and hold forever" culture demands.

White Mountains Insurance (WTM): An excellent capital allocator with a strong track record, but White Mountains operates more like a private equity firm for financial services assets — acquiring, building, and eventually monetizing businesses. This creates a fundamentally different return profile than Markel's permanently compounding Operating Engine, which retains and reinvests earnings rather than crystallizing and distributing them. White Mountains' model requires continuous redeployment of sale proceeds; Markel's compounds without requiring a transaction.

Loews Corporation (L): A classic holding company anchored by CNA Financial, natural gas pipelines, and hotels. Loews has long traded at a conglomerate discount relative to the sum of its parts, reflecting a capital-intensive, slower-growth asset mix that reduces the overall return on invested capital. Markel's private businesses are significantly more capital-efficient and carry higher returns on tangible assets.

Pure-Play Specialty Insurers (Kinsale Capital, W.R. Berkley): These companies are truly in a class by themselves. Kinsale in particular has compounded book value at rates rivaling or exceeding Markel's, with best-in-class underwriting margins and an impressive multi-year track record of disciplined growth in the E&S market. W.R. Berkley is among the most consistent underwriters in the specialty market. What these companies lack is not quality — it is architecture. Without the private business Operating Engine and the equity portfolio compounding on top of underwriting profits, they cannot access the multiplicative compounding dynamic that defines Markel's long-term return profile. They are excellent single-engine machines; Markel is a three-engine system.

Risks to the Investment Thesis

Underwriting Risk and Social Inflation: Markel operates in specialty and casualty lines that are not immune to the industrywide pressure of social inflation — the rising cost of insurance losses driven by increased litigation, expanding legal theories of liability, and larger jury verdicts. A sustained deterioration in the casualty market could erode underwriting margins and convert Markel's costless float into expensive float. The company acknowledged this risk directly in 2023 when it took meaningful reserve charges on selected casualty lines. This is not a hypothetical — it is an active, ongoing exposure that requires monitoring. As of year-end 2025, Markel held \$30.85 billion in gross unpaid losses. A mere 3% deficiency in these reserves would result in an equity hit of approximately \$925 million, wiping out an entire year of the operating engine's cash flow.

The Interest Rate Dual-Edge: The fixed maturity portfolio has an average duration of 3.9 years. A 100-basis-point unexpected increase in interest rates would result in a mark-to-market hit to equity of approximately \$680 million. However, this near-term pain masks a medium-term structural tailwind. As old bonds roll off, the continuously regenerating insurance float allows Markel to re-invest at higher prevailing yields, structurally boosting the recurring earnings power of the investment engine over our 10-year valuation horizon.

Key Man Risk: Tom Gayner is 64 years old and has served as the architect of Markel's investment portfolio and business acquisition strategy for over two decades. The Markel Style — comprising the culture, acquisition philosophy, and investment temperament — is deeply personal to him. Gayner's reputation as a permanent home for founders is Markel's greatest sourcing advantage; a sudden exit without a proven, culturally-aligned successor in this specific role could lead to a temporary "transition discount" in the stock's multiple as the market waits for proof that the sourcing engine remains intact. While Markel's decentralized operating model and institutionalized culture provide meaningful structural protection, succession of the primary capital allocator seat remains the one genuinely unresolved risk in this thesis — and investors should monitor succession planning accordingly.

Operating Engine Cyclicity: The Industrial, Financial, and Consumer & Other businesses are not immune to the economic cycle, particularly in construction-heavy lines, and our valuation architecture accounts for this. Even in a stress-test scenario where a severe recession causes a 30% drop in adjusted operating income, the margin of safety embedded in our probability-weighted NPV — already absorbing a 50% probability of permanent underwriting impairment — ensures that the stock remains undervalued relative to its long-term compounding trajectory. A 30% Operating Engine haircut reduces the non-impairment scenarios by \$400 per share in expected value. Applied to the full probability matrix, this compresses the expected intrinsic value from \$2,773 to approximately \$2,380 — still a 22% margin of safety to the current price. We are not betting on a perfect economy; we are betting on a price that can absorb simultaneous underwriting deterioration and a severe economic recession and still offer positive asymmetry.

Nephila AUM Attrition: The Nephila insurance-linked securities platform, now reported within the Financial segment of the Operating Engine, has experienced sustained headwinds. AUM has contracted from a peak of \$12 billion to \$6.8 billion — a 43% reduction that has meaningfully compressed performance fee revenue. This is not a hypothetical risk; it is an ongoing, observable drag already embedded in the Financial segment's AOI figures used throughout this paper. Our valuation assumes zero recovery to prior AUM high-water marks and assigns no value to future performance fees. Any stabilization or recovery of Nephila AUM is treated strictly as free optionality. The base case does not need it.

Equity Portfolio Concentration: Markel's largest single equity position is Berkshire Hathaway, and the concentration risk is real and quantifiable. A 30% decline in BRK — equivalent to its drawdown during the 2008 financial crisis — would produce an approximate \$600–700 million mark-to-market hit to Markel's reported book value in the year it occurred, equivalent to one full year of Operating Engine cash flow.

This concentration is not an oversight. Gayner anchors the equity base in Berkshire precisely because the Float Multiplier's structural leverage requires a stable, non-volatile foundation beneath it. A portfolio anchored in a business that has navigated every major financial crisis of the past six decades without a permanent capital impairment is the correct instrument for that purpose. The objective is not to beat Berkshire in a stock-picking contest — it is to use

Markel - A 50% Probability of Underwriting Failure Still Yields a 30% Margin of Safety

Berkshire's fortress-level stability to protect the structural leverage that allows Markel to out-compound it on a per-share basis.

Conclusion: The Market Is Pricing a Catastrophe. The Math Requires One.

Markel today presents precisely the opportunity that value investing was designed to identify: a proven, three-engine compounding architecture whose true economic worth is systematically obscured — not by deteriorating fundamentals, but by accounting conventions, a misapplied multiple, and a market that is pricing in the risk of social inflation as a *given* outcome rather than how it is already being handled by Markel — as a manageable *probability*.

The evidence is specific and quantifiable: a 1:1 float-to-equity ratio providing four times the structural leverage of Berkshire; a private business engine whose true economic value is invisible on the GAAP balance sheet; a management team that has demonstrated both the awareness of the mispricing and the willingness to act on it through accelerating share repurchases; and a current market price representing approximately seventy cents on the dollar of conservatively estimated economic value.

Markel is far from riskless. Key man concentration, casualty reserve uncertainty, and a cyclical Operating Engine are ongoing exposures — not theoretical ones. This investment is a bet on the durability of a culture and a track record, not a guarantee. The probability-weighted framework doesn't show that the risks are small. It shows that at \$1,942 per share, you are being well paid to bear them.

For the patient investor with the temperament to hold through periods of casualty cycle volatility, Markel currently offers what value investing has always sought: a wonderful business, available at a price where the power of compounding works strictly in your favor.

Our expected value of \$2,773 — derived by assigning a full 50% probability to a scenario that *permanently* destroys underwriting margins, impairs legacy reserves by 5%, and applies a 30% structural haircut to all remaining cash flows — is a deeply conservative number that models the persistence of social inflation throughout the next decade. Even in the maximum stress scenario — permanent underwriting impairment, 5% reserve deficiency, 30% structural haircut on all remaining cash flows — the two surviving engines still compound at rates that justify a purchase price of \$1,942. The math does not require a recovery. It only requires that the business continue to exist.

About the Author: *Timothy R. Doyle is an independent investor and researcher applying value investing principles and original quantitative analysis to equity securities and markets. This research is provided for informational purposes only and does not constitute investment advice. All valuations involve estimates and assumptions that may prove incorrect.*

Endnotes

¹ Per Markel 2025 10-K, Item 1, Page 3. Float defined as unpaid losses, unearned premiums, and payables to insurance companies, net of premium receivables, reinsurance recoverables, and deferred acquisition costs.

² **Figure 1 - Markel Insurance Segment excluding Global Reinsurance - Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance** - Source Data: Markel 2025 10-K page 104. Modified with a heat map to show relative increases (yellow/orange) or decreases (green) to incurred losses year over year.

³ **Figure 2 - Markel Settlement Lag Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance** — Source Data: Markel 2025 10-K page 104; the reduction in losses is compared to Markel proprietary historical norms for loss payouts to establish - for each accident year - whether payouts are less than historical (<100%), equal (=100%), or greater (>100%) than prior cumulative paid losses payouts. Modified with a heat map to emphasize above and below historical loss payouts.

⁴ **Figure 3 - Markel Residual Exposure Risk by Accident Year** - Source Data: Markel 2025 10-K page 104; Figure 1 and Figure 2 combined to show the residual loss exposure for each accident year. Settlement lags calculated for each accident year versus historical Markel norms for loss payouts.

⁵ **EBITDA** - Earnings Before Interest, Taxes, Depreciation, and Amortization - Depreciation is a real cost, and a potentially considerable one for companies that need to invest in physical assets that de-value over time. To ignore this true cost is to ignore reality. Many of Markel's privately held business are capital intensive businesses, necessitating a conservative estimate of earnings multiple, hence the 10x multiple.

⁶ Cumulative Excess - This is the sum of every dollar spent above the book value of the retired shares since the program began in 2018

⁷ Per-share impact - This is the per share distortion, derived by taking the Cumulative Excess of \$601 million / 12.59 million shares = \$47.72/share, rounded to \$48.

⁸ **Figure 4: Markel Share Price versus True Economic Book Value - Source Data:** Audited Markel Group 10-K Filings (2015–2025). Data points include year-end stock prices, with last updated price of \$1,942.78 3-13-2026 closing price; GAAP Book Value per share, year-end common shares outstanding, common stock repurchase outlays (Statement of Cash Flows), Markel Ventures Segment Operating Income (EBIT), and Ventures GAAP Carrying Value (Goodwill + Intangible Assets footnote).

Methodology: The "Economic Book Value" is reconstructed using a two-part adjustment to GAAP equity. First, we correct for "Repurchase Distortion" by calculating the cumulative annual difference between actual buyback outlays and the book value of those retired shares (the "Excess Repurchase Cost") and adding it back to total equity. Second, we calculate the "Ventures Value Delta" by replacing the historical-cost GAAP carrying value of the Ventures segment with a conservative private-market valuation of 10x trailing EBIT. The final Economic Book Value per Share equals this adjusted equity base divided by year-end shares outstanding.

⁹ **Berkshire's Own Book Value Distortion:** It should be noted that Berkshire Hathaway suffers from a similar (though less acute) accounting illusion regarding its plethora of wholly-owned subsidiaries, the largest of which are BNSF and GEICO, that are carried at historical cost. However, because Berkshire's \$540B+ equity and cash portfolio represents a much larger percentage of its total value than its private operating earnings, the GAAP book value is a more reliable—if still conservative—valuation anchor for Berkshire than it is for Markel. The NPV analysis serves to value the cash flows of both companies' private subsidiaries identically, regardless of their carrying value on the balance sheet.

¹⁰ **Berkshire Hathaway Intrinsic Value Calculation** — Applying the identical two-step framework used throughout this paper: Step 1 multiplies Berkshire's trailing three-year average Operating Earnings of approximately \$32 billion by a 12x multiple, producing an operating earnings value of \$384 billion. Step 2 adds the net balance sheet value: total invested assets (equities, cash, and fixed income) of approximately \$576 billion, less long-term debt of approximately \$37 billion and other obligations, net of a 20% deferred tax haircut applied to the equity portfolio, producing a net balance sheet contribution of approximately \$535.6 billion. Combined: \$384B + \$535.6B = **\$919.6 billion static intrinsic value** against a current market capitalization of approximately \$1,057 billion — a 15% premium to static reproduction cost, confirming Berkshire is priced as a wonderful business at a fair price. The probability-weighted NPV across three equally weighted scenarios (5%, 8%, and 10% growth), using the identical 10% discount rate and 10x terminal multiple applied to Markel, produces a going-concern intrinsic value of approximately **\$1,089 billion** — within 1.2% of the current market price. This confirms Berkshire offers approximately a 10% compounding return with minimal margin of safety: an excellent outcome for a fortress-level business, but not the asymmetric opportunity this paper identifies in Markel.

¹¹ **Adjusted Operating Income** - 2023, 2024, and 2025 AOI - 2025 10-K page 48

¹² **Investment Engine Income** - 2023, 2024, and 2025 Operating Engine Income - 2025 10-K page 51

¹³ **Figure 5: The Margin of Safety - Source Data:** Audited Markel Group 10-K Filings (2015–2025). Data points include year-end stock prices, with last updated price of \$1,942.78 3-13-2026 closing price, shares outstanding, Invested Assets (Equities + Cash & ST), Senior Debt, Preferred Stock, and Non-controlling Interests. The "Operating Engine" is derived from a 3-year rolling average of Adjusted Operating Income (Operating Income minus Investment Gains plus Amortization).

Methodology: Two intrinsic value (IV) tracks are calculated. Static IV follows the Tom Gayner 10-K formula: (3-Yr Avg. Earnings * 12) + Net Balance Sheet. Expected IV utilizes a probability-weighted NPV model: the operating engine is projected over 10 years using three growth scenarios (6%, 8%, 10%, 12%), discounted at a 10% hurdle rate with a 10x terminal multiple. The balance sheet component for the NPV model includes a targeted 20% tax haircut applied specifically to the gross value of the equity portfolio to account for deferred capital gains liabilities.

¹⁴ 10-Year Scenario Return Derivations - Current Base Assumptions: Initial Purchase Price: \$1,942.78; Base Year Intrinsic Value (IV): \$2,773 per share; Expected Annual Business Compounding Rate: 10%; Future Value Calculation: If the business compounds its intrinsic value at 10% annually for 10 years, the Year 10 Intrinsic Value will be: \$2,773 x (1.10)¹⁰ = \$7,031 per share. Scenario A (Full Reversion to Fair Value): The stock trades at 100% of IV in Year 10 (\$7,031). CAGR = ($\$7,031 / \$1,942.78$)^(1/10) - 1 = 13.73% (The return exceeds the 10% business compounding by ~373 bps due to the valuation gap closing.).

¹⁵ 10-Year Scenario Return Deviations - Scenario B (Partial Reversion to Fair Value): The stock trades at an ongoing 20% discount to IV in Year 10 (0.80 x \$7,031 = \$5,625). CAGR = ($\$5,625 / \$1,942.78$)^(1/10) - 1 = 11.22%

¹⁶ **Figure 6: The Markel Operating Engine Cash Flows and Buybacks - Source Data:** Audited Markel Group 10-K Filings (2015–2025). Markel "Operating Engine" cash flows are sourced from the Markel Segment MD&A tables (Segment Operating Income / EBIT). Buyback numbers are sourced from the Consolidated Statement of Cash Flows under Financing Activities (Repurchases of Common Stock).

Methodology: This dual-panel visualization utilizes verified annual cash-flow and segment data to demonstrate the strategic synchronization of Markel's capital allocation. The left panel tracks the absolute annual operating income generation of the Markel "Operating Engine" cash flows, while the right panel tracks the corresponding annual cash outlays for share repurchases. The side-by-side structure quantifies the buybacks as a direct function of Markel's "Operating Engine's" increasing scale and maturity over the 11-year period.